



Quick to Adapt
Working Smart
Taking Risks



Slow to Change
Working Hard
Playing Safe

A NEW PATH TO PROGRESS

2005

INDIANA'S STRATEGIC PLAN FOR ECONOMIC DEVELOPMENT

INDIANA ECONOMIC DEVELOPMENT COUNCIL, INC.

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Indiana's Vision for 2016:

Indiana is a state where learning drives a diverse economy and culture of innovation, with distinctive and competitive businesses that prosper in the global economy. People choose Indiana because of its educational and cultural opportunities, and its natural beauty.



Introduction

Since 1985, the Indiana General Assembly has recognized that a coordinated statewide effort to craft a strategic plan for economic development is critical to the success of our state and the well being of our people. The planning process, refined over the last two decades, seeks to provide consistency, continuity and credibility over time, drawing upon the studies, recommendations and writings of economic development professionals across the state. Once this plan is developed, economic progress must be measured against that plan and periodic updates provided to guide policy makers as they chart our state's future.

This year, with *A New Path to Progress*, we embark on the fifth update in Indiana's series of strategic plans for economic development. Once again, the Indiana Economic Development Council (IEDC) is privileged to steward this process. The Council believes that its role as impartial gatherer and sifter of information and opinions provides assurance that all views on the strategic choices facing Indiana will be thoroughly explored and debated as we seek to build consensus.

This endeavor makes a conscious effort to include participation from those who are responsible for the eventual implementation of the plan. Advisory Council members and staff from each of the twelve Department of Commerce Regions as well as professionals from a wide array of state agencies and economic development entities across the state have participated in various aspects of the process. This increases the ownership of the plan going forward, and insures that the citizen participants in the process have the benefit of the best information about existing programs, priorities already identified by others, and creative input on the most successful strategies for the future. The input gathering process included five state planning sessions, a series of regional planning sessions, focus groups, interviews and an online survey.

A New Path to Progress includes a set of measures that will be tracked and communicated broadly to provide feedback on the effectiveness of these strategies in meeting the state's goals.

Acknowledgements

Our appreciation goes out to the General Assembly for their continued confidence in the IEDC and to the Administration, the business community, and others who are giving of their time and wisdom to participate so generously in this process. The Steering Committee for *A New Path to Progress* was Chaired by Lt. Governor Kathy Davis and Co-Chaired by Tom New from the Advisory Board for the Indiana Economic Development Corporation and Kevin Brinegar, a member of the Council's Board representing the Indiana Chamber of Commerce. We are also in debt to the Indiana Business Research Center for their expertise in providing so much of the data by which we analyze our state and Ms. Christine Nolan from the Purdue University Cooperative Extension Service for her expertise in cluster analysis. There are far too many others to list here, but the many consultants, staff, and subcommittee members can be found at the end of this final document.

Economic Development Strategy for Indiana: 2005 - 2016

Executive Summary

The World is Changing

Change comes more rapidly today than at any time in recent memory, and we are experiencing fundamental, structural changes in the economy. We are moving into a world where information and service play an important role in economic growth and where successful manufacturing operations look very different from the world our parents knew. Unlike previous economic cycles, the economic recovery has not proceeded of its own accord.

Our reputation for working hard has masked the fact that we have been slow to change, and are extremely risk averse. Compared to our neighbors in the Midwest, we were doing well for many decades. Now, when measuring success, we must shift our frame of reference from the Midwest to the world. We compete for workforce and customers on a global stage and we must now compete on the quality and innovation of our products.

Indiana is Poised to Succeed

In the twenty-first century, all Hoosiers must learn to work smart and rally under the banner of innovation. We have great success stories that model this behavior and inspire us to make the transformation. Eli Lilly, Cook Group, Zimmer, and Wellpoint (formerly Anthem) represent models for companies that have been immensely successful due to the creative entrepreneurial spirit that is central to their corporate culture. Resources such as the Purdue Research and Technology Park, The Rose Hulman Venture Center, Crane Naval Warfare Center, and Indiana University's Advanced Research and Technology Institute, provide the State of Indiana with an enormous competitive advantage in the drive towards continuous innovation and improvements in manufacturing productivity. The State must ensure that these resources are well used and can expand on their potential.

Indiana schools graduate more engineers and musicians than most states and we must create the job opportunities and the environment that encourage these creative people to live and work in Indiana. It is imperative that we place a greater value on educating and training workers, not just at the beginning of their careers, but over and over again as the economy continues to evolve and jobs are transformed. We must educate our young people for jobs that have not even been created yet.

We must take risks and be willing to make greater investments in our ideas than we do today. Innovative ideas that never make it to the marketplace are wasted opportunities. We must attract capital and invest our own capital in the commercialization of our ideas. There are seeds of success in our current economy which, if nurtured and celebrated, will bode well for Indiana—our network of technology parks offers opportunity for businesses in the entrepreneurial pipeline to

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grow quickly and the 21st Century Research and Technology Fund encourages ideas to flow through that pipeline. Small businesses dominate our state economy and they require a greater infusion of capital and advanced business services to be the engine of job creation for the future. State and local government must help ensure this growth through additional investments in the infrastructure and programs that serve our businesses and our communities.

We must be willing to embrace change as a positive force. From the most basic question of daylight savings time to the structure of our government, the way we communicate, the way we plan and the way we measure success—we must become comfortable with new approaches because change is inevitable. There have been successes. In the midst of the recent recession, Indiana adopted significant changes in its taxing structure, broadened the financial tools available to our ports, and invested heavily in education at all levels. We must recognize that the changes needed for the new economy are not solely the task of government, or business, or labor, or education. Instead, change must be embraced by all of these partners together to transform our state.

We have learned that there is a cost to communities that do not partner to grow their economies together. Successes in Central and Northeast Indiana demonstrate the competitive advantage borne out of the regional approach to economic development. Cluster analysis has reinforced the need to evaluate our competitiveness on a regional basis.

The analysis conducted for *A New Path to Progress* documented Indiana's strength in Advanced Manufacturing, Advanced Materials and Chemicals. These areas are critical to Indiana and deserve continued attention. In the area of Transportation, Distribution and Logistics, Indiana's slight competitive advantage represents a strong opportunity for growth because of the state's central location.

The same analysis revealed the need to focus efforts on the critically weak areas of Information Technology, Advanced Business Services and Information, Communication and Media if Indiana is to support growth in the increasingly complex clusters that lead our economy today.

Indiana's Choice

Indiana is standing at a critical juncture in its history. Looking ahead to the 2016 bicentennial year, Indiana can choose to participate and succeed in the global economy where change happens quickly, people work smart, and take risks. In this economic development strategy, and its companion documents for the twelve regions of the Department of Commerce, there are many suggestions that can move the state along this new path to progress. Choosing this path, we can ensure that Indiana will be a place where people choose to live and where businesses prosper.

A New Path to Progress

We have identified seven goals for Indiana's economic development strategy:

1. Indiana will have an abundant supply of highly skilled and educated workers that meet the demands of businesses.
2. Hoosiers will enjoy increased wealth and a higher standard of living.
3. Indiana products and services will increase their share of the world market.
4. Indiana will be a world leader in innovation and its commercialization.
5. Indiana will diversify its economic base in order to enjoy sustainable economic growth.
6. Indiana will be a place where people choose to live.
7. Indiana will have leveraged its competitive advantages in order to strengthen its business and industry clusters.



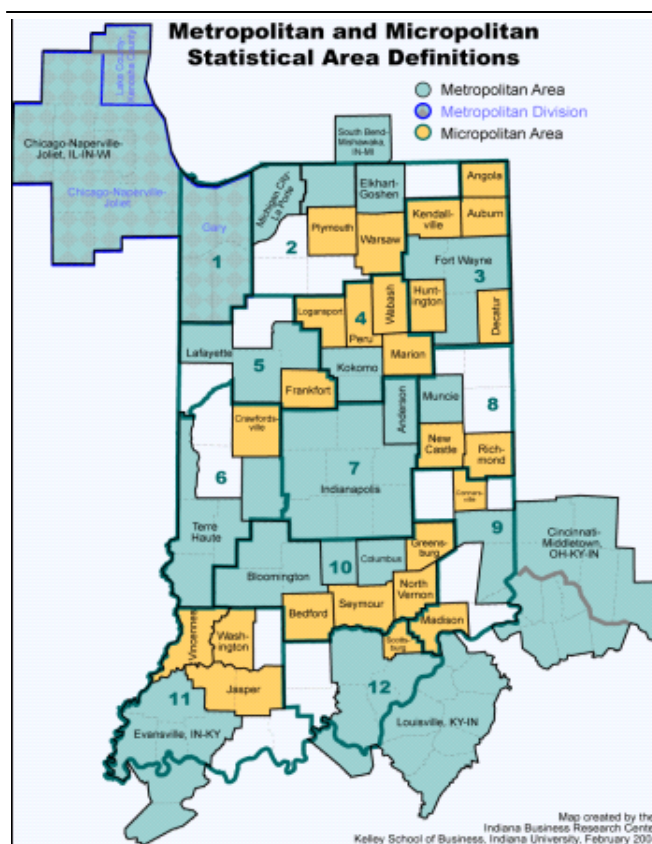
The Crossroads of America

Indiana is centrally located in the nation's Midwest and home to 6.25 million Hoosiers, making it the 14th largest state in terms of population. More than 4.7 million people live in the thirteen metropolitan statistical areas (MSA's) within Indiana and the three additional metro areas that contain Indiana counties. Over a million Hoosiers live in one of the twenty-five newly defined micropolitan¹ areas. Another 680,000 people live in the Gary division of the Chicago metro area.

Major interstate highways (I-69, I-65, I-74, I-70, and I-64) intersect the state from north to south and east to west with the expectation that this accessibility will soon be enhanced by the completion of the south portion of I-69, giving added credence to the state's claim to be the "Crossroads of America." An extensive system of major and regional airports serves all areas of the state as well.

Our geography is diverse with sand dunes to the north, rich farm land, reservoirs, forests and caves to the south. Over half of the state's borders are water, including 400 miles of direct access to two major freight transportation arteries: the Great Lakes/St. Lawrence Seaway and the Inland Waterway System via the Ohio River. Through the state's port system, Indiana annually ships over seventy million tons of cargo by water each year, ranking 14th among all states.

Map 1 – Commerce Regions and Metropolitan and Microplitan Divisions



Indiana's economy enjoys a total visitor volume of 58 million person trips each year due to a thriving spectator sports industry, including the world-renowned Indy 500 and other sports car races, a strong state park system and flourishing gaming industry, and a large convention industry centered in Indianapolis that stimulates continued growth in the hotel and restaurant industry.

¹ A micropolitan statistical area has at least one urban core with a population of at least 10,000 but less than 50,000. The urban clusters also have an adjacent territory with a high degree of social and economic integration as measured by commuting.

The Case for Economic Diversity

A diversified economic base is beneficial because of the differing relationships between industry sectors and the business cycle². Industries that are closely tied to the business cycle experience upswings and downswings in employment in tune with the peaks and troughs of the business cycle. Other industries are not so closely tied to the business cycle, such as the healthcare industry which, irrespective of the business cycle, is expected to grow as the baby boom generation ages.

In an economy with a favorable blend of industries, and with strong, interdependent industry clusters, when one industry begins to shrink and lay off workers, others can absorb some of these workers.

Indiana's Industry Sectors

Indiana's top five industry sectors in terms of total employment are manufacturing, retail, health care and social assistance, educational services, and accommodation and food services. The manufacturing sector is Indiana's largest sector, both in employment and earnings (20.3% and 27.7% respectively). Manufacturing is followed by Retail and Healthcare as the next largest employment sectors (11.9% and 11.8%), however these two sectors together generate only 19.3% of state workers' earnings, as compared to almost 28% for manufacturing earnings.

All of Indiana's major sectors are capable of generating additional income from external sources for the state and its residents, and opportunities exist to expand this capacity. For example, the state's major research universities attract many out-of-state and international students, who bring new money into the local and regional economies. The universities also attract very large sums in Federal and other research grants, and provide other income-earning services to business and industry. The healthcare sector attracts customers from out of state for its specialized services, while accommodation and food service sectors provide services for foreign and out of state visitors and tourists. Specialized retail can also provide external income-earning opportunities, particularly when located close to state borders, or if the retail is specialized or unique enough to attract external customers.

Manufacturing, however, is currently the state's largest economic "driver," representing industries that produce largely and explicitly for export. This is reflected in the size of the location quotients³, calculated for these major sectors: all except manufacturing are at or close to the "norm" for the nation (represented as "1"). Table 1 displays this information for Indiana.

² The business cycle is the series of peaks and troughs that frame economic recession or expansion, as measured by Gross Domestic Product.

³ A location quotient measures the local concentration of employment in an industry as compared to the rest of the nation. A location quotient greater than 1 indicates that a state or locality is producing goods and services in excess of its local needs, with the excess available for export.

Table 1 - Employment Change and Concentration in Indiana by Major Sector 1998-2003

Industry Title and NAICS Code	Total Jobs, IN 2003	Share of Total Jobs, IN 2003	Percent Change in Total Jobs, IN 1998-2003		Percent Change in Total US Jobs, 1998-2003	Location Quotients by Sector, IN 2003	Per Capita Payroll Wages, IN 2003
			IN 1998-2003	IN 1998-2003			
Total, all industries	2,821,879	100.0%	-28,575	-1.0%	3.0%	1.00	33,379
NAICS 31-33 Manufacturing	573,039	20.3%	-83,168	-12.7%	-17.9%	1.79	45,459
NAICS 44-45 Retail trade	335,267	11.9%	-12,819	-3.7%	2.0%	1.01	20,922
NAICS 62 Health care and social assistance	334,142	11.8%	31,832	10.5%	11.9%	0.98	33,525
NAICS 61 Educational services	231,592	8.2%	18,707	8.8%	13.3%	0.93	32,331
NAICS 72 Accommodation and food services	227,628	8.1%	9,993	4.6%	8.2%	0.99	11,267
NAICS 23 Construction	144,752	5.1%	-283	-0.2%	10.5%	0.95	38,494
NAICS 56 Administrative and waste services	140,962	5.0%	11,503	8.9%	4.1%	0.84	21,904
NAICS 92 Public administration	129,130	4.6%	7,915	6.5%	7.2%	0.82	32,567
NAICS 48-49 Transportation and warehousing	121,235	4.3%	-2,751	-2.2%	-1.2%	1.08	35,318
NAICS 42 Wholesale trade	117,760	4.2%	-2,976	-2.5%	1.1%	0.95	44,122
NAICS 52 Finance and insurance	104,157	3.7%	-3,465	-3.2%	7.3%	0.81	45,554
NAICS 54 Professional and technical services	86,364	3.1%	5,242	6.5%	8.5%	0.58	43,970
NAICS 81 Other services, except public administration	83,541	3.0%	-898	-1.1%	6.6%	0.88	21,900
NAICS 51 Information	47,547	1.7%	-3,318	-6.5%	-1.1%	0.65	37,297
NAICS 71 Arts, entertainment, and recreation	45,536	1.6%	7,686	20.3%	13.0%	0.94	24,904
NAICS 53 Real estate and rental and leasing	35,213	1.2%	326	0.9%	5.9%	0.76	27,744
NAICS 55 Management of companies and enterprises	26,732	0.9%	-2,717	-9.2%	-4.1%	0.73	61,544
NAICS 22 Utilities	14,407	0.5%	-2,090	-12.7%	-2.6%	0.79	60,497
NAICS 11 Agriculture, forestry, fishing and hunting	11,940	0.4%	-123	-1.0%	-3.5%	0.46	24,572
NAICS 21 Mining	6,584	0.2%	-567	-7.9%	-12.0%	0.60	48,117

Source: Indiana Economic Development Council and Purdue University Cooperative Extension Service, based on data provided by Indiana Business Research Center, November, 2004

Manufacturing

When considering the future economic prosperity of the state, it is important to evaluate the mix of industries that make up Indiana's manufacturing sector, and their likely future growth within the national and global contexts.

Manufacturing sector industries are almost twice as concentrated in Indiana as they are in the nation as a whole (1.8) and the sector is by far the state's largest employer. Indiana has at least 52 manufacturing subsectors that have a locational concentration of employment in the state (as compared to the nation), with location quotients ranging as high as 9.9 (NAICS 3311 Iron and steel mills and ferroalloy manufacturing.). Still other specialized industries, such as motor home manufacturing (location quotient of 23.5), within these subsectors display astonishing degrees of concentration.

However, of the largest of these subsectors shown in Table 2 below (those having more than 10,000 jobs) only four have made employment gains between 1998 and 2003:

Table 2 - Employment Gains in Four Major Sectors

Industry Title and NAICS Code	Total Jobs, IN 2003	Change in Number of Jobs, IN 1998-2003	Percent Change in Number of Jobs, IN 1998-2003	Location Quotient by Sector, IN 2003
NAICS 3361 Motor vehicle manufacturing	13,102	6,127	87.84%	2.30
NAICS 3254 Pharmaceutical and medicine manufacturing	19,957	5,089	34.23%	3.10
NAICS 3391 Medical equipment and supplies manufacturing	15,563	2,827	22.20%	2.33
NAICS 3362 Motor vehicle body and trailer manufacturing	32,977	4,988	17.82%	9.77

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Indiana's manufacturing industry mix is heavily tilted towards ferrous metal industries including iron and steel foundries, fabricated structural steel products, transportation equipment manufacturing, machinery and machine tool manufacturing. With the exception of certain parts of the transportation equipment industries, such as motor vehicle manufacturing, many of these sectors declined steeply during the recent recession. Additionally, many such industries have seen increases in productivity as well as increasing competition from Asia and the Far East, the European Union and Russia.

Indiana's challenge is to identify its emerging manufacturing industries that will replace older, declining sectors. Indiana must nurture these industries to enhance the competitiveness and productivity of our current industrial base to the future benefit of the state and its workers. Examples of such industries include advanced materials for the transportation equipment and electronics industries, as well as biological, chemical and pharmaceutical products.

The state's manufacturing sector lost 83,168 jobs from 1998 to 2003, 12.7% of its total employment, although the nation lost a much larger 17.9% of its total manufacturing jobs during the period. In Indiana, the only major 3-digit sub-sector that did not lose employment from 1998-2003 was the chemicals sector.

Significant structural changes in the economy have impacted manufacturing

According to the National Bureau of Economic Research (the organization responsible for tracking the business cycle), the United States started coming out of recession in March 2001. If the nation, and Indiana, has truly begun to recover from the most recent recession, why has the state not begun to recover the manufacturing jobs that it lost during the recession?

Globalization has amplified the effects of the most recent recession. As barriers to trade decrease, many businesses are moving operations overseas where labor costs are significantly lower. Indiana businesses need to compete with their international counterparts based on price, quantity and quality. As the world sees rapid improvements in communications and transportation technology, the challenge for Indiana is to produce better products and services at a faster pace.

Increased worker productivity allows operations to produce at the same high levels with fewer workers. In a special report on productivity published in September 2003, the *Economist* found that labor productivity growth has averaged almost three percent a year from 1995, which is twice the average rate over the previous two decades. As technological and process improvements increase laborers' productivity, the labor needs of manufacturing operations grow smaller. Although this results in the increased strength of the manufacturing industry, many manufacturing jobs lost during the recession are "unrecoverable".

This pattern of job loss due to increased productivity levels parallels the experience of agriculture during the 20th century. The volume of agricultural production is greater today than ever with the lowest employment levels in decades.

Chart 1 – Patterns of Job Loss



Manufacturing is expected to remain a driving force in the state's economy. The sector accounts for one fifth of the state's employment base not to mention the support industries in the state whose strength is tied to manufacturing. Having said this, we must also be conscious of national and global trends where services are a faster growing segment of the economy. As is illustrated in Chart 1, relative to the nation, Indiana did not make comparable job gains in some key service sectors during the past year.

Service Industries

In today's economy, many service industries no longer produce products only for local consumption. Information, knowledge and finance industries are among the best-known services with products that can be sold across state and national borders. States and regions that are working hard to maintain a vibrant economy need an adequate share of these advanced service businesses in order to support their major driver industries. There is evidence that Indiana's share of such advanced supporting services is low. Table 3 shows 2003 Indiana location quotients in these key service industries. None of the location quotients for Indiana's key service sectors are equivalent to one, indicating that Indiana's share of employment in professional and technical services, management, information, as well as finance and insurance services was small compared to the US.

Table 3 - Location Quotients for Basic Service Industries, 2003

	Location Quotients, IN 2003	Total Jobs, IN 2003	Total Jobs, US 2003
All Industries	n/a	2,821,879	127,795,827
Utilities	0.8	14,407	829,562
Professional, technical services	0.6	86,364	6,744,928
Other services, excl. public admin	0.9	83,541	4,312,477
Management of companies, enterprises	0.7	26,732	1,660,137
Information	0.6	47,547	3,321,420
Finance and Insurance	0.8	104,157	5,809,484

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Nationally, there has been a notable shift from manufacturing employment to services. According to projections produced by the Bureau of Labor Statistics, "The long term shift from goods-producing to service-producing employment is expected to continue. Service-producing industries are expected to account for approximately 20.8 million of the 21.6 new wage and salary jobs generated in the 2002-2012 period."

The quality, composition and size of the workforce has become a key economic development issue.

Significantly lower wage expectations in foreign labor markets, coupled with decreasing transportation costs and improving global infrastructure mean Indiana no longer enjoys a clear competitive advantage from lower wages. In order to remain competitive, businesses have shifted from seeking low wage labor to seeking high-skill labor. Even traditional manufacturing operations, which many people do not consider to be "high-tech", increasingly require a new type of worker.

Indiana must develop the capacity to meet the workforce needs of current and future businesses. It is also critical for Indiana to have a sufficient pool of quality workers to attract new business operations to the state. With the looming retirement of the baby boom generation, Indiana must evaluate whether it will have sufficient labor to fill positions vacated by retirees, as well as positions created when businesses expand.

Since 1999, Indiana has made significant investments in developing this workforce. Most noteworthy of these is the state's progress toward a community college system. The impact of these investments on Indiana's workforce is evident in recent improvements made in the concentration of working age population with Associate Degrees or some college education.

But that is not enough— in terms of population with two and four year college degrees, there is still a wide gap between Indiana and the nation. Indiana's post secondary educational institutions are nationally recognized and attract students from all over the world. Enrollment in these institutions continues to grow and yet the concentration of Hoosiers with at least a bachelor's degree does not keep pace with the nation. According to estimates from the American Community Survey, in 2003 22.2 % of Hoosiers at least 25 years of age had Bachelor degrees. Based on this data, Indiana ranked 45th in the nation and was five percentage points below the national average.

Although Indiana's colleges and universities continue to graduate a large number of young professionals every year, a great share of these graduates leave the state to seek employment elsewhere. Those who have been studying this exodus of young graduates from the state (commonly referred to as the "brain drain") cite four major explanations for why students to leave the state:

- The low demand for workers with four-year degrees relative to the supply created in Indiana.
- The inadequate array of cultural amenities that is attractive to young professionals.

- Graduates who are not from Indiana tend return to the state or country from which they originated.
- The natural tendency to seek opportunities and experiences elsewhere upon graduation.

That Indiana is experiencing a “brain drain” creates challenges; more puzzling is the state’s failure to make a “brain gain”. These two trends indicate that Indiana is not seen as a popular destination where people with college degrees choose to migrate. In recognition of this trend, many community leaders in education, government, and business have made conscious efforts to retain graduates in the state and are seeing some signs of success

According to the Occupational Outlook Handbook, “Population is the single most important factor in determining the size and composition of the labor force”. From 1990-2000, Indiana’s population grew by 9.7%, positioning it as the 26th in the nation, 3.7 percentage points less than the national average. During that same period, the labor force in Indiana grew at a slightly greater rate than the state’s population growth (11.6% growth).

Tied closely to the structural job losses in manufacturing is the issue of incumbent worker training. Many Hoosiers who lost their jobs either to outsourcing or because of new technology still have a few years remaining before they reach retirement age. These workers must be retrained to facilitate their reentry into the labor market.

While diversification provides greater balance and stability to lessen the state’s susceptibility to the business cycle, it is important to diversify into industries that will provide many highly skilled, high wage jobs to Hoosiers in areas where Indiana has the ability to compete. A more balanced economy decreases Indiana’s vulnerability to downturns and may result in a more creative and innovative environment if Indiana diversifies in a targeted manner.

Diversification must bring quality jobs and increased productivity

In 2002, 9.1% of Hoosiers were living below the poverty level. Indiana’s poverty was 2.1 percentage points below the national average and the state ranked 9th in the nation. Despite the relatively low rates of poverty and unemployment in Indiana, Hoosiers are not as wealthy as their counterparts across the nation as indicated by the relatively low per capita personal income in the state, illustrated in Chart 2.

Chart 2 - Per Capita Personal Income, Indiana and US, 1969-2003

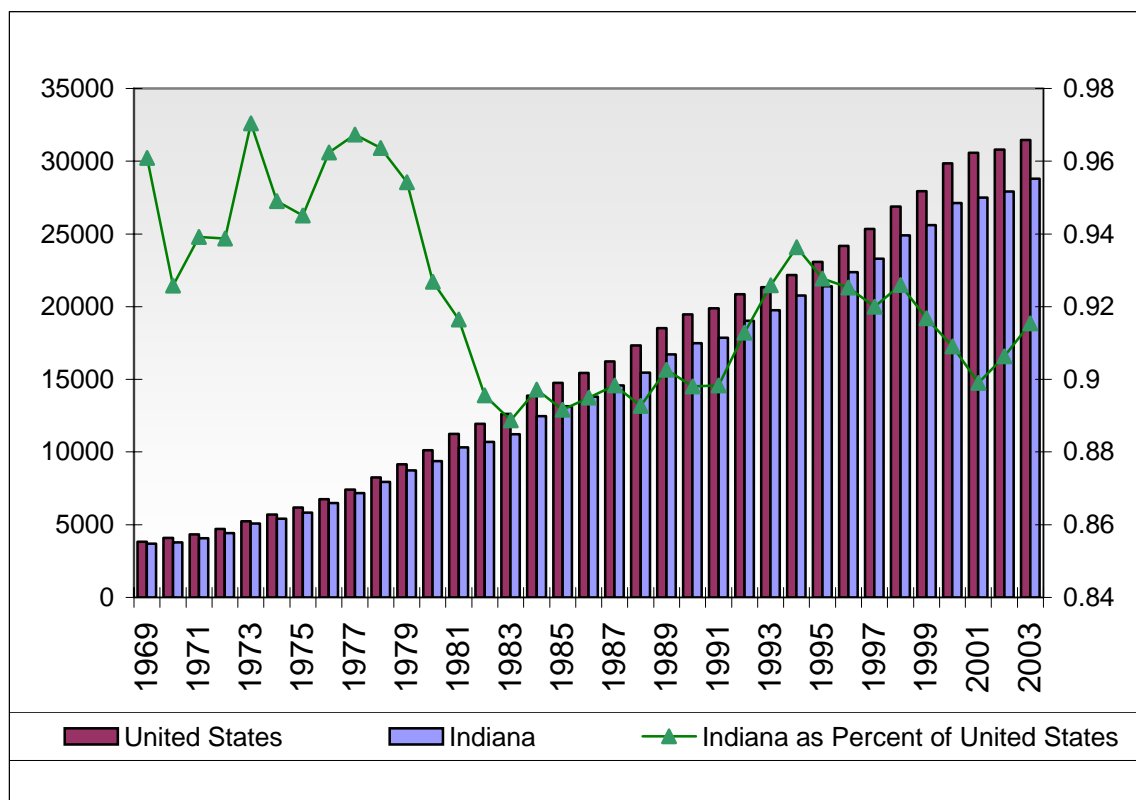
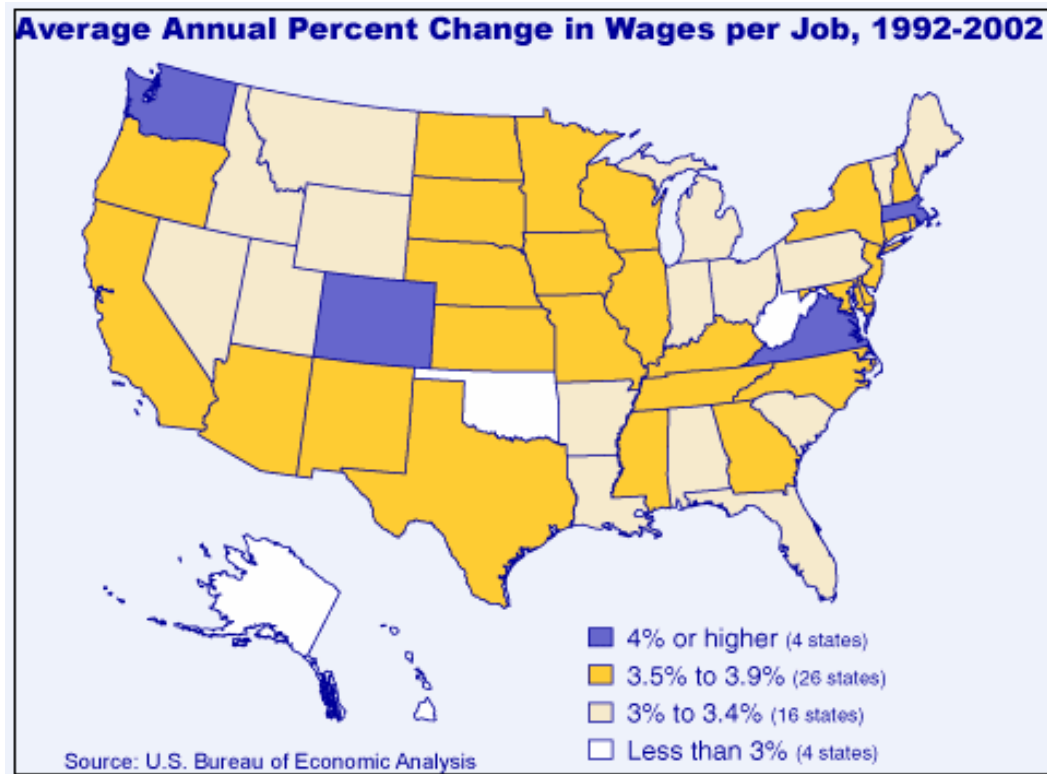


Chart 2 illustrates how per capita personal income growth in Indiana has not kept up with the nation. According to the Bureau of Economic Analysis, in 2003, Indiana ranked 33rd among the states with per capita personal income of \$28,787, compared to \$31,459 for the nation. Over the past ten years Indiana has shown a relative gain in personal income of 14.4 % but at 91.5 % of the national average, the state still has a long way to go.

Map 2 – Change in Wages per Job, by State



Much of the slow growth of state per capita personal income is a reflection of the slow growth of Indiana's average earned income. In 2003, the average earned income of Indiana workers was \$33,376 (\$4,372 less than the national average). As illustrated in Map 2, Indiana has lagged most other states in the nation in terms of wage growth.

If the State of Indiana is to diversify, it must do so in a targeted manner that will result in high pay and high skill jobs. Using information on the state's business and industry clusters can further this goal.



Indiana's Business and Industry Clusters, 1998-2003

Over the last ten to fifteen years, cluster analysis has emerged as a new way of looking at economic development, integrating regional differences in development and economic specialization. An increasing number of states and regions in the US and overseas have modified their economic development strategies to focus and capitalize on the business and industry clusters where they have, or would like to have, a competitive advantage. In adopting a cluster strategy, states and regions hope to maximize their competitive advantage in existing industries and to build new strengths in the emerging industries that will replace older, declining sectors.

Industry clusters are defined as "...*geographic* concentrations of competing, complementary, or interdependent firms and industries that do business with each other and/or have common needs for talent, technology, and infrastructure. The firms included in the cluster may be both competitive and cooperative. They may compete directly with some members of the cluster, purchase inputs from other cluster members, and rely on the services of other cluster firms in the operation of their business." (*University of Minnesota Extension Service, 1999*)

Indiana has had a head start in developing business and industry based cluster strategies for economic development. Several studies, including the plan published by the Indiana Chamber of Commerce⁴, have already taken place around the state. The studies carried out in Region 7, under the auspices of the Central Indiana Corporate Partnership (CICP), resulted in an early targeting of four clusters for further development: Life Sciences, Advanced Logistics, Advanced Manufacturing and Information Technology. More work has also been conducted in Regions 2, 3 and 6.

A New Path to Progress presents comparable data and interpretation for policy development for the twelve Department of Commerce regions and the entire state, building upon definitions of clusters that have already been studied. "New" clusters are introduced to present regions with an expanded range of choice and knowledge regarding their comparative and competitive advantages in their own areas.

The plan has examined the strength and direction of growth of fourteen clusters in Indiana: Advanced Materials; Advanced Logistics; Advanced Business Services; Advanced Manufacturing; Chemicals; Biomedical/Biotechnical (Life Sciences); Forest and Wood Products; Earth Products; Educational Services; Arts, Entertainment, Recreation and Visitor Industries; Information Technology; Information, Communications and Media; Environmental Technology and Agribusiness, Food Processing and Technology. Detailed cluster analysis and information is available for each subsector in each cluster.

In Chart 3 below, each cluster is located in one of four quadrants that describe the cluster in terms of its concentration in the state as compared to the US (more than 1 = "concentrated;" less

⁴ Indiana Business Climate Blueprint, published by the State Chamber of Commerce In 1996 included a cluster strategy

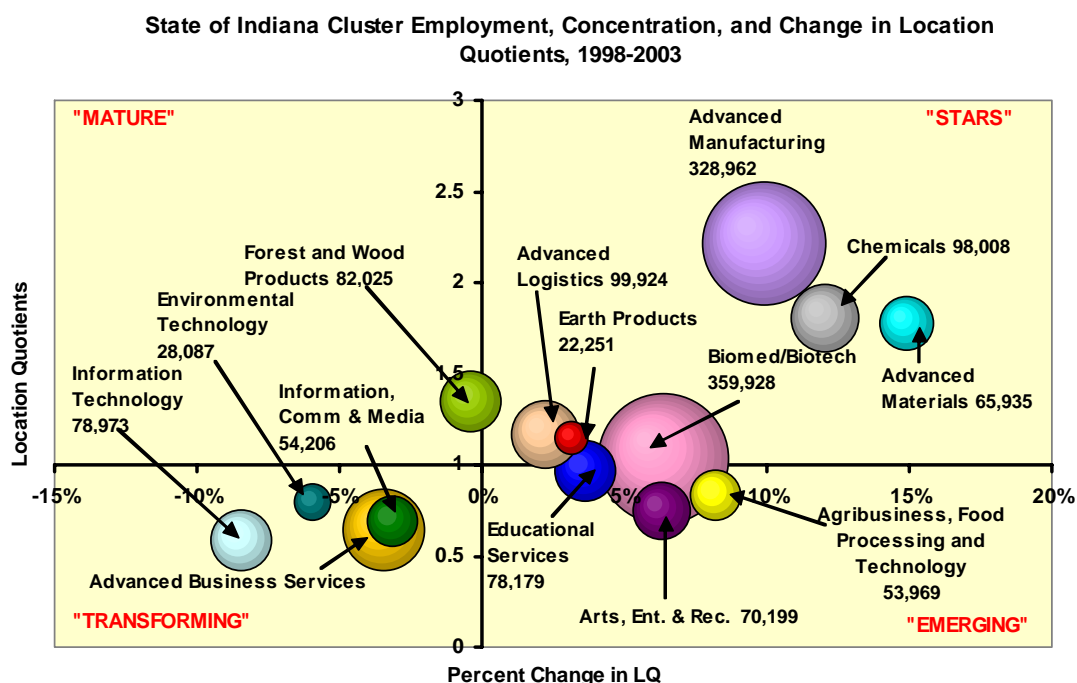
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than 1 = "not concentrated"). The location quotients showing concentration are shown along the vertical axis of the chart. In addition, the cluster is located according to the direction of its growth in terms of concentration (increasing or decreasing). The percent change in concentration is shown along the horizontal axis of the chart. Clusters in each quadrant are classified as follows:

1. Concentrated, with increasing concentration ("Stars")
2. Concentrated, with decreasing concentration ("Mature")
3. Not concentrated, but with increasing concentration ("Emerging")
4. Not concentrated, with decreasing concentration ("Transforming")

Each "bubble," representing a particular cluster is labeled with the cluster name, and the size of its employment in 2003. Different policy approaches will be appropriate for the clusters, according to which category they fall into.

Chart 3 – Cluster Employment Concentration



In Table 4, each cluster is analyzed according to its size (number of jobs) in 2003, the strength and direction of growth in location quotients between 1998 and 2003, as well as the size and direction of change in the **Industry Mix** and **Regional Shift** of shares of growth (positive or negative). For purposes of comparison, the average per capita payroll income for each cluster is also illustrated in Table 4.

Table 4 – Change in Employment and Concentration in Clusters

STATE OF INDIANA CLUSTER TOTALS, CHANGE IN EMPLOYMENT AND CONCENTRATION, 1998 - 2003					
Cluster Name	Total Employees, 2003	Percent Change in Employment, 1998-2003	Location Quotients 2003	Percent Change in Location Quotients, 1998-2003	Average Annual Payroll Per Capita, 2003
Total, all industries	2,821,879	-1.00%	1.00	--	33,379
Specialized, Increasing Specialization					
Advanced Manufacturing	328,962	-16.24%	2.22	9.9%	48,338
Chemicals	98,008	-2.63%	1.81	12.0%	48,906
Advanced Materials	65,935	-10.89%	1.78	14.9%	58,743
Advanced Logistics	99,924	-2.15%	1.17	2.2%	34,848
Earth Products	22,251	-10.24%	1.15	3.1%	43,876
Biomed/Biotech (Life Sciences)	359,928	12.61%	1.04	6.4%	38,774
Specialized, Decreasing Specialization					
Forest and Wood Products	82,025	-8.25%	1.35	-0.4%	32,338
Unspecialized, Increasing Specialization					
Educational Services	78,179	14.91%	0.97	3.6%	33,071
Agribusiness, Food Processing and Technology	53,969	0.19%	0.84	8.1%	34,658
Arts, Entertainment, Recreation and Visitor Industries	70,199	8.15%	0.75	6.3%	22,303
Unspecialized, Decreasing Specialization					
Environmental Technology	28,087	-6.16%	0.80	-5.9%	43,453
Information, Communications and Media	54,206	-10.74%	0.69	-3.2%	38,878
Advanced Business Services	145,513	1.22%	0.65	-3.5%	48,175
Information Technology	78,973	-17.58%	0.60	-8.5%	51,240

Source: Indiana Economic Development Council and Purdue University Cooperative Extension Service, based on data provided by Indiana Business Research Center, November 2004

Of the six industry clusters in Indiana that were concentrated compared to the US in 2003, the degree of concentration was highest in Advanced Manufacturing, Advanced Materials and Chemicals. In spite of losing 16.2% of its total employment between 1998 and 2003, the Advanced Manufacturing cluster in Indiana increased in degree of specialization compared to the nation, due to the general decline in the cluster size at the national level.

Indiana's Advanced Manufacturing cluster contains many sub-sectors that are very highly concentrated and specialized compared to the nation. The state is particularly strong in iron, steel and other metal manufactures; fabricated metal products; machine shops; machinery of all kinds; communications, audio and video equipment; electronic and electrical equipment and appliances, including both small and major household appliances. The largest sub-sector by far in this cluster is the transportation equipment manufacturing sector. Motor vehicle and parts manufacturing in Indiana includes passenger vehicle, motor home, truck and trailer manufacturing; railroad rolling stock manufacturing; aircraft engine manufacturing and surprisingly, a fairly large and growing boat building subsector. It is these transportation equipment manufacturers almost alone that have expanded during the 1998-2003 period.

The Advanced Materials cluster is, in part, a sub-cluster of Indiana's Advanced Manufacturing cluster, and includes chemical and biological products, such as plastics, resins, artificial rubber and artificial and organic fibers manufacturing; medicines and biological diagnostic substances, as well as alumina and aluminum and other non-ferrous metal products. It is within this cluster that high-tech innovations in materials used for other manufacturing industries are expected to occur. Indiana's Advanced Materials cluster is almost twice as concentrated in the state as it is in the nation, and there is much potential for growth given the advantages conferred by the state's

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major research universities, and investments in research and development (R&D) by major industries, particularly the chemicals and pharmaceuticals industries.

Identification of a Chemicals cluster provides an alternate way to focus on a somewhat different mix of related manufacturing industries. In Indiana, these include agricultural chemicals, paint, adhesives and coatings, pharmaceuticals and medicines, plastics, resins and rubber products as well as surprising strengths in non-metallic mineral products such as glass containers and clay and non-clay refractories (advanced heat-resistant materials). Indiana's Chemicals Cluster is closely related to its Earth Products cluster. This smaller cluster includes mining activities in non-metallic minerals, as well as glass, ceramics and refractories manufacturing. Products of the Chemicals cluster also provide important inputs to the Forest and Wood Products cluster in Indiana.

Although Indiana's Biomedical/Biotechnical (Life Sciences) cluster as a whole shows only a small (but growing) competitive advantage compared to the nation, within this cluster there are some notable specializations and strengths, including pharmaceutical preparations (almost four times more concentrated in Indiana than in the nation), laboratory apparatus and furniture, medical laboratories, and surgical appliances and supplies (including the manufacture of artificial limbs and other orthopedic items). This sector forms an important part of the economy in Region 2.

The Advanced Logistics cluster has, like the Biotech cluster, a fairly small locational advantage compared to the nation (location quotient=1.2). However, the concentration is growing. Within this cluster, Indiana has strong concentrations in long-distance and local freight trucking industries; and non-scheduled air transportation (likely to be regional charter services for both freight and personnel). However, both sets of industries declined in employment from 1998-2003. Concentrated subsectors that have shown strong growth within the cluster include general, refrigerated and farm product warehousing and storage, along with packaging and labeling services. Freight transportation arrangement is an "emerging" subsector within this cluster.

The Forest and Wood Products cluster falls into the "mature cluster" category, and has declined slightly in degree of concentration over the study period. This cluster is large and important to the state and the regional economies where it has a geographic concentration (IDOC Regions 2, 7, 11 and 12). This cluster too has its special strengths, including manufactured and mobile homes, hardwood veneers and plywood, wood containers and pallets, wood office furniture, wood kitchen cabinet and countertops as well as sawmill and woodworking machinery. Increasing foreign imports, particularly from China, are seen as a threat to the wood furniture portions of this cluster of industries.

Indiana's "emerging" clusters in 2003 included Arts, Entertainment, Recreation and Visitor Industries, Agribusiness and Food Processing, and Educational Services. Of these three, Agribusiness and Food Processing had the strongest rate of growth in concentration. Educational Services had the strongest rate of employment growth, and the cluster is growing nationally. Both the Agribusiness and the Arts clusters had positive rates in the share of Industry Mix and Regional Shift indicating a competitive advantage in these two clusters of industries.

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“Emerging clusters” in a state or regional economy are potential candidates to be targeted for future expansion, if there is a favorable industry mix and regional share advantage and if the targeted clusters will contribute to the success of other clusters. In Indiana, expansion of, and building upon, the already existing strengths of the Arts, Entertainment, Recreation and Visitor Industries cluster would likely contribute substantially to the “quality of life” standards needed to recruit and retain workforce and industry. This cluster also attracts income from outside the state when it is patronized by visitors and tourists. Indiana’s greatest strengths in this cluster are gaming industries and spectator sports, but several subsectors are capable of being strengthened, such as tourism.

The Educational Services cluster, as referenced in this report, consists largely of secondary and post-secondary institutions of education and training, including Junior Colleges, Universities, Business, Computer and Management training schools and Technical and trade schools (the cluster does not contain any elementary school-level educational services). Almost all sectors within this cluster have been growing at the industry level. In Indiana, the regional advantage share of this growth (regional shift) is positive for Junior Colleges and Business, Computer and Secretarial training – but not (surprisingly) for Colleges and Universities, or for Management training. These subsectors may need further investments in order to grow this key cluster.

The third “emerging” cluster, Agribusiness and Food Processing and Technology, is not a particularly large employer. Indiana is known for its oilseed and grain farming, however. Corn farming is over 8 times more concentrated in Indiana than in the nation at large, and wet corn milling in Indiana is over 7 times more concentrated than the US. The state’s farmers are also specialized in the production of hogs, pigs, poultry and eggs. However, employment in these sectors has been declining, while cattle ranching and farming is expanding dramatically – this sector grew by almost 115% from 1998 to 2003. Sectors in the Agribusiness and Food Processing cluster that have produced the most growth over the study period are food-processing industries such as fruit and vegetable preserving, meat processing, frozen dessert manufacturing and bakery and tortilla manufacturing. Nevertheless, the state does not currently have a large range or concentration of specialty food manufacturers, and this could well present a future opportunity for expansion.

Four of the state’s clusters fell into the category “Transforming,” meaning that they suffered declines in concentration compared to the US. Declines occurred in three key clusters that support other business and industry - Advanced Business Services, Information Technology, and Information, Communications and Media. Of the three, only Advanced Business Services grew in employment, but at a weak rate. It is noteworthy that Indiana has a smaller proportion of its employment in Professional and Technical services, and Information services, both key components of the Advanced Business Services cluster, than do some neighboring states. Building the strength, size and capacity of these clusters is increasingly important to the local capacity to produce the technologically advanced and knowledge-based services to support driver industries required in the new global economy.

It is noteworthy that Indiana, for example, has in general a smaller proportion of its employment in Professional and Technical services, and Information services, both key components of the Advanced Business Services cluster, than do some neighboring states. This cluster, however, is increasingly important to the local capacity to produce the technologically advanced and knowledge-based services to support driver industries required in the new global economy.

The following strategies utilize this cluster approach and complement strategies found elsewhere in this plan.

1. Expand Cluster Analysis and Strategies for Local and Regional Economic Development

- Strengthen Indiana's existing employment and industrial base through the use of cluster-based analysis of sub-IDOC Region economic areas (such as counties).
- Provide detail of internal structure of clusters, and dynamics of industries within clusters, and identify industries that function in multiple clusters.
- Compare state and regional clusters to identify cluster opportunities that may be remote from each other but which could benefit from increased linkages.

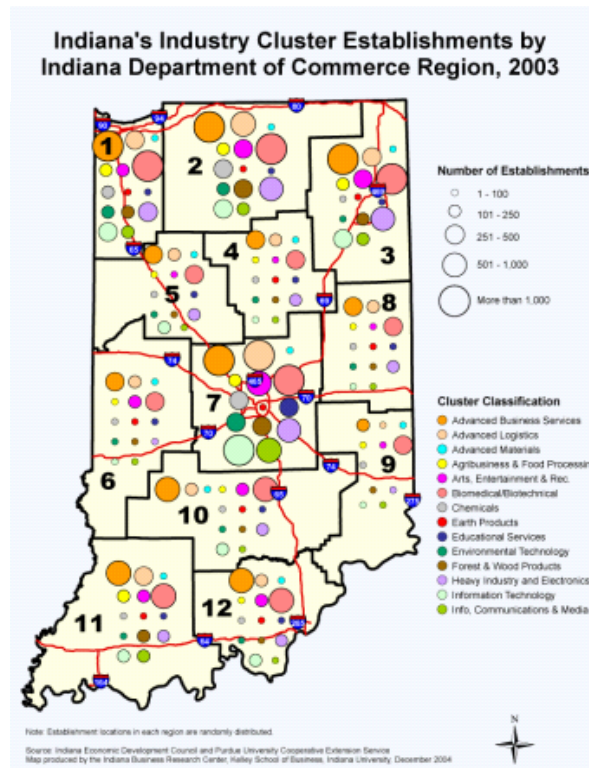
2. Conduct Expanded Local Economic Development Organization Training

- Deliver hands-on training to LEDO's (and other stakeholders at county and region levels) to enable them to identify threats and opportunities relative to their local industrial employers.
- Develop educational programs, materials and IF/THEN scenarios for use by LEDO's, Workforce Development Agencies and other planning/economic development personnel.
- Assist LEDO's to develop their own numbers for local clusters, show them how to compare with the state and US (Location Quotients, Shift-Share, Input-Output).
- Assemble resulting data into a statewide database for additional analysis and cluster development use.

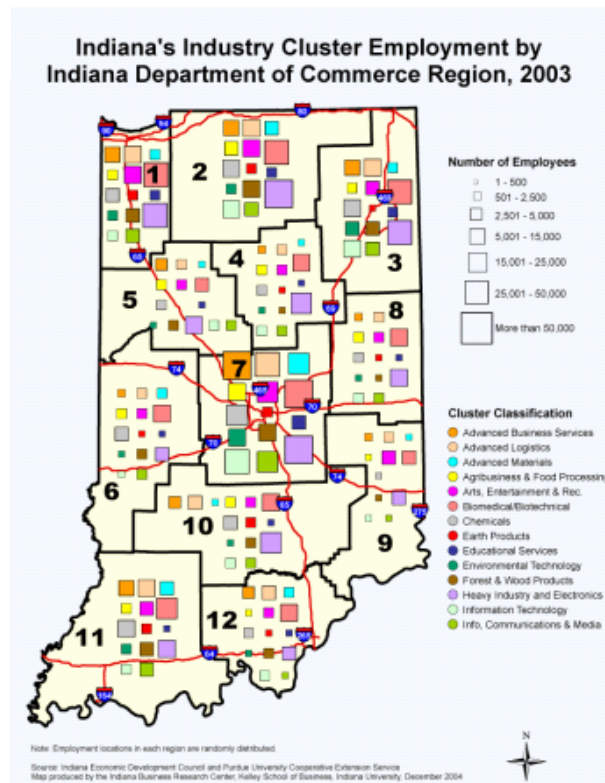
3. Develop Cluster-Based Local Business Retention And Expansion Systems

- Develop an integrated, state-wide system that utilizes cluster development tactics to address economic threats and capitalize on economic opportunities for individual firms at the local and regional level.
- Increase purchasing/supply chain activities within Indiana and regional clusters. This will increase sales for existing firms and retain more industrial spending and employment within the state.

Map 3 -



Map 4 -



Indiana Vision, Goals and Milestones for 2016

2016 will be Indiana's bicentennial anniversary, making it an auspicious point in time for Indiana's future vision:

Indiana is a state where learning drives a diverse economy and culture of innovation, with distinctive and competitive businesses that prosper in the global economy. People choose Indiana because of its educational and cultural opportunities, and its natural beauty.

A New Path to Progress sets these seven overarching goals for Indiana's economic development strategy:

Goal 1: Indiana will have an abundant supply of highly skilled and educated workers that meets the demands of businesses.

Milestones:

- Indiana will be ranked among the top ten states in terms of Percent of Population, 25 Years and Older, with Associates Degree
In 2003, Indiana ranked 35th strongest among the states with 6.56 % of population, 25 years and older, with Associates Degree compared to 6.99 at the national level.
- Indiana will be ranked among the top half of the states in terms of Percent of Population, 25 Years and Older, with at least a Bachelor's Degree
In 2003, Indiana ranked 45th strongest among the states with 22.2 % of population, 25 years and older, with at least a Bachelor's Degree, compared to 27.2 at the national level.

Goal 2: Hoosiers will enjoy increased wealth and a higher standard of living.

Milestones:

- The average earned income in Indiana will be at least equal the average earned income in the nation
In 2002, Indiana ranked 28th strongest among the states with an average earned income at \$31,975 compared to \$36,176 at the national level.
- Indiana will be ranked among the top ten states in terms of Median Household Income
In 2003, Indiana ranked 25th strongest among the states with a median household income at \$42,067 compared to \$43,564 at the national level.

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- Indiana will be ranked among the top ten states in terms of Personal Income as share of the US Personal Income
In 2002, Indiana ranked 15th strongest among the states with a personal income that was 2.1 % of the U.S. Total.

Goal 3: Indiana products and services will increase their share of the world market.

Milestone:

- Indiana will be ranked among the top ten states in terms of Export Values
In 2003, Indiana ranked 12th strongest among the states with an Export Value at \$16,402,279,000.

Goal 4: Indiana will be a world leader in innovation and its commercialization.

Milestones:

- Indiana will be ranked among the top fifteen states in terms of R & D Expenditures as a Share of Total National R & D Expenditure
In 2002, Indiana ranked 18th strongest among the states with Research and Development Expenditures at \$4,326, 337,000; 1.69 of total US Research and Development Expenditures
- Indiana will be ranked among the top fifteen states in terms of Patents
In 2003, Indiana ranked 20th strongest among the states with patents at 1,676.

Goal 5: Indiana will diversify its economic base in order to enjoy sustainable economic growth.

Milestones:

- Key industry super-sectors in Indiana that are lagging the US, including Finance & insurance, Information, Professional, scientific & technical services and Management of companies & enterprises will increase their share of total employment to more closely match the US averages.

Table 5 - US and Indiana Percent Shares of Employment by Major Sector, 2001

2001	Arts, entertainment & recreation	Educational services	Finance & insurance	Information	Professional, scientific & technical services	Management of companies & enterprises
US	3.3%	2.3%	5.4%	3.3%	6.2%	2.5%
Indiana	1.6%	1.8%	4.1%	1.9%	3.5%	1.9%

Source: Indiana Economic Development Council and Purdue University Cooperative Extension Service from data provided by Indiana Business Research Center, 2004

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- Indiana will be ranked among the top fifteen states in terms of rate of growth in Gross State Product (GSP)

Based on change in GSP from 1990-2000, Indiana ranked 23rd strongest among the states with an increase in GSP of 71.3 % compared to 67.8 % at the national level.

Goal 6: Indiana will be a place where people choose to live.

Milestones:

- Indiana will be ranked among the top fifteen states in terms of rate of growth in Population

Based on change in population from 1990-2000, Indiana ranked 27th strongest among the states with an increase in population of 9.7 % compared to 13.2 % at the national level.

- Indiana will be ranked among the top fifteen states in terms of Net Migration

In 2003, Indiana ranked 21st strongest among the states with net migration at 12,166.

Goal 7: Indiana will have leveraged its competitive advantages in order to strengthen its business and industry clusters.

Milestones:

Star Clusters:

- We will push the location quotient for the Advanced Materials cluster past 2 (twice as concentrated as the US),
- The Advanced Logistics, Earth Products and Biomed/ Biotech clusters will achieve a location quotient equal to or greater than 1.5.
- We will maintain or increase our strengths in the Advanced Manufacturing and Chemicals clusters.

Emerging Clusters:

- The Educational services; Agribusiness, Food Processing and Technology; and Arts, Entertainment, Recreation and Visitor Industries clusters will achieve a location quotient equal to or greater than 1.2.

Transforming Clusters:

- The Information Technology, Advanced Business Services, and Information, Communication and Media clusters will achieve a location quotient at least equal to 1.

Mature Clusters:

- We will maintain a location quotient greater than 1.2 for industries in the Forest and Wood Products cluster where we have a competitive advantage.

Drivers: Seven Sphere of Activity to Strengthen the Economy

The formula for successful economic development goes beyond incentives and relocation of firms from out of state. To improve our economy and achieve the goals outlined in this strategy, we must act holistically. The Progressive Policy Institute identified seven spheres of activity to strengthen the economy and the Council has adopted this concept in approaching this revision to the state plan. In his 2002-03 work in Indiana, Mac Holladay of Market Street Associates reinforced this concept. The strategies designed to move Indiana towards its goals are organized by seven economic drivers (Globalization, Business and Innovation, Infrastructure, Quality of Life, Smart Government, Thinking Regionally and Workforce and Education) to remind us that we must balance our efforts and “hit on every cylinder”.

The Statewide Steering Committee has developed strategies and objectives based upon the seven drivers for success for Indiana. These strategies and objectives appear on the following pages.



Driver 1: Globalization

To succeed in the new economy, Indiana must understand the socio-economic forces that make up the global economy. The state's businesses and communities must be adept at taking advantage of opportunities created by global change including emerging markets, increased foreign investment and the decreasing cost of inputs. The state must be prepared to meet challenges created by the global economy and create an environment of global readiness.

2005 Policy Recommendations:

- Adopt Daylight Savings Time
- Compile a comprehensive inventory of the assets available to Indiana businesses interested in global trade, including existing trade zones, sister city/state relationships, trade councils and technical assistance
- Adopt a comprehensive foreign trade policy to stimulate state exports and increase foreign investment in Indiana.
- Ensure that the state's marketing materials present Indiana as a strategic location for international business expansion seeking to reach the American markets from a central location.
- Identify and support an organization responsible for collecting, analyzing and disseminating reliable information about global trends and opportunities for Indiana.
- Expand current state international trade programs to provide more varied assistance to a wider array of businesses.
- Invest more resources in trade missions to increase the export of high-technology products to foreign markets and import foreign customers for high-technology services.

Long Term Directions:

- Increase support in K-12 for student exchanges and instruction in foreign languages
- Position Indiana as an international leader in science, math and technology-based education
- Create programs that encourage international students educated in Indiana to develop business relationships in the state
- Encourage Indiana communities to become more hospitable places for workers and their families who participate in global business
- Build communications, transportation and educational infrastructures appropriate to the needs of companies doing global business.
- Identify opportunities for Indiana businesses to compete based on quality
- Aggressively pursue opportunities for foreign investment in Indiana.
- Engage the leading foreign companies operating in Indiana in efforts to strengthen relationships in their home countries for Indiana based businesses

Driver 2: Regional Thinking

In the global economy, every community is dependent upon neighboring communities in its multi-county region for labor and other resources. Economies are regional and communities benefit greatly when they act beyond political boundaries and build coalitions tailored to address specific development issues.

2005 Policy Recommendations:

- Adopt a single definition of regional boundaries for the delivery of services by economic development organizations in Indiana (public, private and not-for profit, state and federal)
- Maintain the regional office network for economic development.
- Give preferences in all state economic development funding to multi-jurisdictional proposals.
- Create a statewide model for multi-county / regional developments to share in increased tax revenues from business investment.
- Assure that state programs allow regions to capitalize on multi-state partnerships.
- Encourage the Commerce regional offices to provide an opportunity for matching local investors with new business opportunities.
- Complete cluster analysis for all regions to focus efforts on the areas that offer the greatest potential for economic growth and to identify a brand for each regions

Long Term Directions:

- Enhance initiatives, programs, and infrastructure that develop rural communities in order to address the disparity between urban and rural areas.
- Encourage central cities to reestablish their role as the economic core and engine of the regions.
- Support a system of regionally based inter-modal transportation that facilitates the movement of people and goods and serves new and expanding sectors of the economy.
- Support policy initiatives to stimulate multi-county business/industrial parks by funding regional infrastructure with shared tax revenues
- Develop models to understand the impact of increased gambling venues in neighboring states on the Indiana economy and identify potential sources of replacement revenue

Driver 3: Smart Government

Government can either hinder or facilitate economic development. Smart and adaptable governments are invaluable economic assets.

2005 Policy Recommendations:

- Retain the Crane Naval Warfare Center
- Implement a uniform statewide property tax management system and database that is easily accessible to local government, state government and the public.
- Encourage the consolidation of local government units and state agencies to simplify service delivery and increase accountability.
- Revise tax policies and incentives to reinforce downtown rehabilitation over the development of green space.
- Encourage local governments to identify new sources of funding for Urban Enterprise Zones.
- Allow a sales tax exemption for the purchase of Information Technology and Research & Development equipment.
- Renew the legislation for TIF and Tax Abatement retaining control at the local level.
- Authorize a wider range of taxing options for local governments to encourage communities and regions to make the necessary investments to grow their economies.
- Implement a sliding scale for tax credits and incentives allowing businesses of all sizes to participate in these programs

Long Term Directions:

- Direct Indiana's Chief Information Officer to more effectively manage technology challenges across agencies of state government.
- Establish and achieve standards for all counties on the use of e-government services.
- Promote long-term use of performance measurements and benchmarks as strategies to improve government performance.
- Encourage local governments to combine financial resources and share highly skilled employees across multiple jurisdictions.
- Expand opportunities for local governments to create additional Community Revitalization Enhancement Districts (CReED) districts.
- Update the law to allow for accurate valuation of investments in software and other Information Technology infrastructure by business.
- Pursue sound long-term fiscal and budget policies at the state level to afford a measure of stability that increases business confidence and investment.
- Revisit the common understanding of the Indiana Economic Development Council's appropriate role and responsibilities and fund adequately to conduct research.
- Encourage comprehensive models for land use planning across the state that incorporate use of Geographic Information Systems technology.

Driver 4: Business and Innovation

Successful new economy businesses are characterized by continuous innovation and a critical mass of advanced business services to bring products to market.

2005 Policy Recommendations:

- Create statewide initiatives that enable Transportation, Distribution and Logistics (TDL), Advanced Materials and Advanced Manufacturing to create mechanisms for growth similar to what has been done for life sciences.
- Build upon the success of the 21st Century Research and Development Fund by increasing its support to \$150 million annually.
- Allow tax credits for new Research & Development startups to be transferred to investors or sold.
- Continue to match all federal SBIR/STTR (Small Business Innovation Research Program/Small Business Technology Transfer Program) awards.
- Continue implementation of the state's Tech Park model combining university presence in a community in collaboration with innovative business incubation.
- Expand the reach of the Small Business Development Centers in providing services to more small businesses by increasing state funding for this program.
- Further explore cluster analysis to identify and develop business sectors, such as advanced materials, that are of current or future importance to the state's economy.

Long Term Directions:

- Enhance the growth of cutting edge research by the staff and faculty at Indiana's universities and colleges to facilitate technology commercialization that benefits Indiana's economy.
- Adopt policies that increase the availability of capital at all stages in the commercialization of new technologies.
- Increase the competitiveness of Indiana agriculture by developing the technologies that allow agriculture to operate at a large scale without negatively impacting the environment or quality of life in local communities.
- Encourage the development of native renewable sources of energy, such as corn and soy, and fund research into their commercialization.
- Continue to support Indiana's role in bioscience technology development by promoting corporate growth within the bioscience industries and by promoting the importance of bioscience's role in the state's economy.
- Identify employer health care cost factors that impact Indiana's competitiveness compared to other states and recommend alternatives.
- Facilitate entrance of minority owned businesses into local communities.
- Evaluate current efforts and create a statewide plan to extend the micro-loan program and regional Revolving Loan Fund (RLF) assistance to Indiana start-up companies.

Driver 5: Infrastructure

Each community must have adequate infrastructure that will enable it to compete. Infrastructure includes: broadband telecommunications, water, sewer, power, and transportation.

2005 Policy Recommendations:

- Compile information about the statewide need for infrastructure work and recommend the appropriate levels of funding for the State Revolving Loan Fund (RLF) needed to augment local funds in meeting these needs in the next twenty years.
- Adopt a statewide plan for the expansion of mass transit developed with a regional focus and with an emphasis on workforce transportation as well as access to multimodal nodes throughout the state, funded in part through increased gas tax revenues
- Expand financing options for state and local governments to build infrastructure that supports and sustains business investment.
- Provide statewide support and advocacy for the further development of the Gary/Chicago Regional Airport
- Work with regional and federal leaders to implement the Marquette Greenway Plan
- Continue the development of plans for the I-69 expansion with particular emphasis on weighing the impact of this work on the economic vitality of impacted communities
- Adopt the recommendations of the Broadband Study Group to insure that high speed internet service is available across the state

Long Term Directions:

- Build on the state's competitive advantages of its location, and further develop an efficient statewide transportation system to improve connectivity between air, maritime, rail, and road systems, including the further development of the state's ports
- Increase Indiana's share of the federal Transportation Equity Revitalization Act.
- Balance regulation with profitability to ensure an adequate supply of competitively priced utilities.

Driver 6: Workforce Development and Education

In the new economy, education/skill attainment and access to continuing education and training will be among the most important factors for competitive success. There is an increased recognition by community leaders in Indiana regarding the importance of creating, retaining and attracting a competitive workforce in Indiana to meet every facet of business needs.

2005 Policy Recommendations:

- Continue to support the development of a web-based training information and employment services clearinghouse to provide current information on training provider and employment services, employment opportunities, and a skilled labor bank of prospective employees.
- Align the Workforce Development planning regions and Workforce Investment Board regions with the Commerce regions to reduce confusion and streamline service delivery.
- Advocate and support the development of regional skills alliances that are public/private ventures to ensure workers have the training they need to meet the demands of the current and future workplace.
- Expand use of the Work Keys measurement system to evaluate workforce readiness in meeting Indiana's business needs.
- Inventory workforce needs in each Commerce region and compare that to the offerings of post secondary institutions in that region
- Create and fund a permanent statewide network to develop and support entrepreneurial education

Long Term Directions:

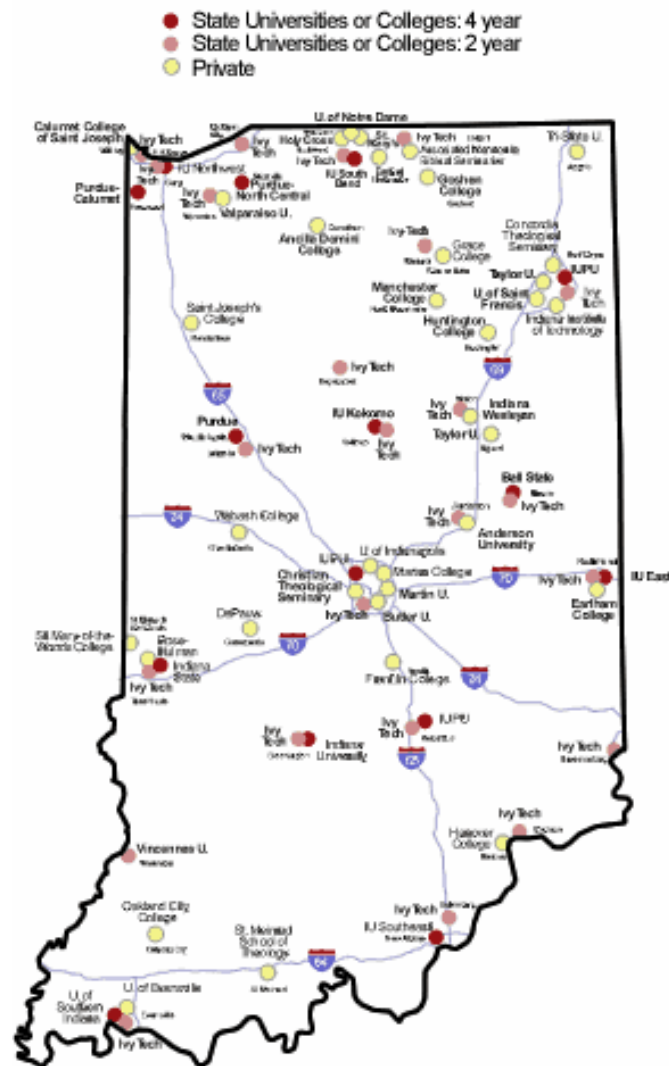
- Establish linkages between the private sector and state post-secondary education and training providers to increase employment opportunities for Indiana graduates and ensure availability of necessary programs.
- Increase grant funding to expand industry specific training activities across Indiana, with priority consideration for increasing earnings per job for current and prospective employees of new, expanding, or existing companies.
- Implement the recommendations of the Health Industry Forum⁵.
- Create flexible educational programs for incumbent workers in all state universities and colleges.
- Direct highly competitive incentives to businesses creating high skill/high wage jobs.
- Produce a multilingual workforce proficient in science and technology.
- Fund an increase in state-of-the-art training equipment availability to meet the needs of workers seeking to thrive in the new economy.
- Promote full day kindergarten and other initiatives to better prepare students in K-12 for post-secondary training and education.

⁵ The Indiana Health Industry Forum (IHIF) is a not-for-profit, private sector organization, and its members represent a private/public alliance of manufacturers, suppliers, educational institutions, health care providers, service providers and government.

- Reimburse the out-of-state portion of tuition for graduates who remain in Indiana in designated technology jobs.
- Offer tax credits for individual, full-time workers and incentives for employers who create workplace-based educational programs.
- Enhance employment development activities, particularly those that provide workforce development for low- to moderate-income citizens.
- Continue to realign the state policy for financing higher education to insure adequate support for community colleges while continuing to invest in our leading research and graduate institutions.
- Fund summer enrollment increases for K-12.
- Increase the availability of Ivy Tech programs statewide including options to that offer such training through existing high school facilities and at worksites to reach additional communities.
- Increase the integration of credits from Ivy Tech College with other public colleges and universities to increase student access to the full continuum of educational opportunities.
- Develop and fund an aggressive strategy to market technical careers.
- Simplify the structure of financial support and incentives to reward results for those firms who invest in new technology and highly skilled technology workers.
- Improve childcare options at work and at school to encourage continuing education by incumbent workers.

Map 6 -

Indiana Universities and Colleges



Quality of Life

People and businesses want to locate in places that are safe, attractive and offer a wide range of educational, cultural, and recreational opportunities.

Driver 7: Quality of Life

In the new economy, people have higher expectations about the quality of life in their communities and that plays a great role in business location decisions.

2005 Policy Recommendations:

- Increase the availability of safe, quality, resource-compatible recreation.
- Eliminate non-attainment designations by improving air quality throughout the state
- Ensure the provision of quality health care and promote healthy lives for all residents.
- Promote livable communities and community redevelopment as crucial to economic development.
- Develop and promote a unified marketing strategy to sell the state's high quality of life to prospective investors and to attract outside visitors.
- Develop amenities that are attractive to visitors, including elements of the Marquette Greenway Plan.
- Implement the strategies developed by the Indiana Tourism Council.

Long Term Directions:

- Increase knowledge about and educate public to appreciate natural and cultural resources.
- Adopt a plan to balance environmental impacts with energy needs that allows Indiana to maintain its position as a low cost energy state.
- Adopt a plan to reduce pollution to meet environmental standards across the state.
- Expand existing state funded programs that facilitate "clean" and "green."
- Strengthen and expand the state's continuum of care for persons who are homeless.
- Provide assistance to eligible populations to promote independent living and encourage self-sufficiency.
- Improve the state's juvenile and criminal justice systems in order to reduce crime and fear of crime.
- Provide a wide continuum of housing options while reducing the number of Hoosier homes lost to foreclosure.
- Increase statewide support for the arts through the Indiana Arts Commission.
- Strengthen the State Parks system to improve Hoosier health and attract business from out of state.
- Develop and promote sports and physical fitness opportunities that expand Indiana's sports industry and environment, and contribute to the physical fitness of the citizens of Indiana.

Strengths, Weaknesses, Opportunities and Threats

As part of the statewide planning process, the Indiana Economic Development Council, Inc. has compiled the strengths, weaknesses, opportunities and threats (SWOT) in the state that were identified by the statewide steering committee.

Strengths and *weaknesses* refer to regional assets or liabilities that are addressable by regional or local initiatives.

Threats and *opportunities* refer to conditions or environments which are often national or global in nature and which are not subject to local control. Communities must anticipate and respond to threats and opportunities but cannot substantially alter their nature or direction.

The SWOT analyses that follow were organized by the Seven Economic Development Drivers for success in Indiana, which serve as the structure for this planning effort:

- GLOBALIZATION
- REGIONAL THINKING
- SMART GOVERNMENT
- BUSINESS INNOVATION
- INFRASTRUCTURE
- WORKFORCE AND EDUCATION
- QUALITY OF LIFE

Globalization

STRENGTHS

1. Increase in the number schools offering International Baccalaureate
2. Strong international studies opportunities
3. STAR clusters: Advanced Manufacturing, Advanced Materials, Earth Products, Advanced Logistics, Biotech/Biomed, Chemicals, Forest and Wood Products.
4. Twelve foreign trade offices, second only to Florida
5. High percent of what is manufactured in Indiana is exported
6. High level of support from universities to businesses in global partnerships
7. Ranked 14th in the nation in terms of Foreign Direct Investment
8. Increase in the ethnic diversity of the state's population

WEAKNESSES

1. Awareness of the new "global culture" is primarily in younger generation, rather than among the decision makers
2. Failure of Indiana firms to target the right markets overseas
3. Lack of diversification in industrial/economic base at home
4. Insufficient international orientation
5. Conservative outlook, resistance to change
6. Failure to adopt Daylight Savings Time creates confusion

OPPORTUNITIES

1. Sister cities, sister state relationships have potential for economic development emphasis, e.g., Toyota City, Munich, Stuttgart
2. Stress competing based on quality
3. Build on the base of existing foreign trade offices
4. Build on employment sectors where our competitive advantages lie, e.g., adding value to agricultural products
5. Open new foreign markets
6. Attract Foreign Direct Investment
7. Capitalize on large number of foreign students who attend our universities

THREATS

1. Indiana manufacturing plants make low investments in technology relative to our international competitors
2. Non-compliance and non-enforcement of trade agreements concerning investment, worker safety and environmental regulations
3. Uncertainty over continued economic growth in developing countries for acceptance of our exports, i.e., agribusiness, manufacturing
4. Innovation by our global competitors
5. High cost of doing business, including legacy costs, resulting in outsourcing to high skill, low-wage countries
6. Worldwide skepticism about genetically engineered products

Regional Thinking

STRENGTHS

1. Counties in the state are starting to think regionally, as demonstrated by increased organizational collaboration and the initial successes in Central Indiana and in North East Indiana.
2. Local organizations/agencies are starting to accept the need for regional collaboration in response to reduced budgets
3. Strong history of sole proprietorships in Indiana serve as basis for rural development
4. Strong network of community and other supporting foundations
5. Strong universities foster regional interaction
6. Organizational Partnerships that already exist
7. Growing SMSA's help expand economies of small communities

WEAKNESSES

1. Too many definitions of regions, serving different purposes
2. Difficulty in funding regional marketing, resulting in lack of strong regional brands
3. Uneven distribution of resources within regional boundaries
4. Lack of consistent definition for economic development
5. Lack of buy-in on regional planning; "turf issues"
6. Difficulty in learning to think like a region
7. Businesses lack information about regional programs
8. Structure of current government inhibits new groupings.

OPPORTUNITIES

1. Employ current regional structure as a starting point to develop a single definition of regions that will be used statewide.
2. Make use of Interagency discussion that results in cooperation and sharing of resources to address the needs of the region
3. Leverage existence of organizations that support the regional structure, such as the Indiana Humanities Council and their efforts.
4. Use regional offices to communicate and deliver state programs
5. Increase the availability of regional cluster and economic data

THREATS

1. Regional designations established by outside entities confuse and obscure our regional approach
2. Increasing disparity in resources between urban and rural communities

Smart Government

STRENGTHS

1. Local government knows its strengths and weaknesses well. Such self-awareness is important in addressing problems, particularly economic issues
2. Low tax state
3. Committed government officials and strong local accountability
4. Concern for and interest in downtown development
5. High adoption of technology in government and expanded use of e-government in some areas

WEAKNESSES

1. Few fiscal tools for local government to enter into regional planning
2. Complacency and lack of "big" thinking
3. Government incentives have focused too highly on manufacturing
4. Lack of land use planning
5. Low tax mentality, but always wanting more services
6. The inferiority complex of those in Indiana
7. Too many units of government and too many elected local officials
8. Lack of performance based employment in government
9. Lack of credible, easily accessible data to use in decision making

OPPORTUNITIES

1. Employ government collaboration to increase efficiency and cost savings
2. Capitalize on regionalization trends
3. Identify technology needs at the local level
4. Leverage communication and information sharing
5. Make greater use of state local coop purchasing
6. Increase use of Internet to deliver services and information
7. Capitalize on new tools and models for land use planning, especially GIS

THREATS

1. Fear of change
2. Inability of government to use new technology
3. State/Federal unfunded mandates to local government
4. Intellectual power spread too thinly among too many government positions.
5. Possible base closure decision at Crane

Business Innovation

STRENGTHS

1. Array of outstanding universities working in collaboration
2. Strong manufacturing base
3. Midwest trains/educates a great portion of the engineering talent in the US
4. State sponsored programs to assist business innovation such as the state venture credit tax, R&D tax credit, and the tech development grant fund
5. The life sciences initiative in Indiana
6. STAR clusters: Advanced Manufacturing, Advanced Materials, Earth Products, Advanced Logistics, Biotech/Biomed, Chemicals, Forest and Wood Products.
7. Energize Indiana programs
8. Existence of programs including the Certified Technology Park Program that encourage technology transfer from universities to businesses
9. Existence of Port Authority supports Indiana's logistics businesses

WEAKNESSES

1. Lack of funding for initial investment to stimulate growth of early stage companies
2. Limited pool of experienced executive management talent to manage and nurture early stage companies
3. Lack of public knowledge about the availability and details of various state programs that are designed to assist business
4. Weak Business Services sector
5. Lack of self promotion
6. Very few minority owned firms in Indiana (1997 Indiana = 5.5%, US= 14.6%)
7. Low number of patents (2003 Indiana ranked 20th with 1,676 patents)
8. Inadequate broadband service connectivity

OPPORTUNITIES

1. Enhance tech transfer process and capabilities
2. Solicit large research grants from federal agencies
3. Transportation Distribution and Logistics (TDL) and advanced manufacturing can be organize in a manner similar to what has been done for the life sciences (Bio-crossroads)
4. Developments in communications technology, including Internet II and I-Light II
5. Create alternative energy sources
6. Capitalize on existing strength in delivery and financing of healthcare services
7. Bridge regional/state boundaries to engage border communities

THREATS

1. The aging population in Indiana
2. Urban vs. rural; bipolarization of Indiana economy
3. Lack of international safeguards for intellectual property

Infrastructure

STRENGTHS

1. Indiana's central location
2. Internet II and I-Light II networks
3. Relatively low cost of utilities
4. Interstate highway network and the existence of a 25-year plan for highways
5. Plentiful water and open, available, undeveloped land
6. Some counties making investments in public transportation
7. Good system of regional airports

WEAKNESSES

1. Shortfalls in investment in infrastructure limit the capacity to address future growth
2. Limited mechanisms for multi-jurisdictional projects
3. Aged and inadequate wastewater and drainage systems
4. Inadequate high-speed telecommunications infrastructure to address the needs of rural communities.
5. Old bridges and inadequate funding for replacement
6. Crisis oriented approach to infrastructure

OPPORTUNITIES

1. Air transport capacity across the state (Ft. Wayne, South Bend, Evansville, Gary)
2. High speed rail
3. Increase coordinating local, regional, state, interstate planning
4. Reclaim strength/potential of freight transportation infrastructure
5. Leverage abundance of corn, soy, and recyclables to develop alternative fuels
6. Environmental infrastructure, land bank
7. New communications tools
8. Capitalize on extension of I-69 to develop economy of southern Indiana
9. Use statewide Geographic Information System (GIS) to plan for infrastructure needs

THREATS

1. Decreasing federal support for infrastructure
2. Rail abandonment/Rights of way are diminishing the potential for rail to serve as an alternative to road for freight
3. Loss of gas tax due to fuel efficiency
4. Threat of unreasonable regulation of emerging technologies including Voice Over Internet Protocol (VOIP)

Workforce/Education

STRENGTHS

1. Many excellent colleges and universities
2. Increasingly available and expanding Community College system
3. Relatively affordable education compared to other states
4. Excellent progress toward raising school standards
5. New retraining efforts sponsored by state
6. "Work keys" system to match worker skills with employer needs
7. Deep pool of untapped engineering talent in Indiana resulting from the changes in manufacturing employment

WEAKNESSES

1. Low concentration of educated workforce
2. Low demand for workers with four-year degrees relative to the supply created in Indiana (brain drain).
3. Insufficient and inflexible financial aid and scholarships opportunities for adult, part-time, and non-traditional students
4. Benefits of lifelong learning and understanding of the needs of older individuals are not widely understood or valued
5. Educators frequently do not share new or innovative teaching methods
6. K-12 school systems do not provide enough educational alternatives
7. Low standardized test scores for Indiana students

OPPORTUNITIES

1. Organize learning opportunities around business centers of excellence
2. Create an export industry from education instructional design
3. Tap private sector expertise
4. Provide workforce competency guarantees to employers
5. Just in Time (JIT) training strategies aimed at filling specific employer needs

THREATS

1. Indiana's residents, businesses, and institutions are not learning as fast as competitors
2. Slow population growth in workforce limits economic opportunities
3. Well educated workforce in foreign countries
4. Low population growth

Quality of Life

STRENGTHS

1. Availability of affordable housing for most Hoosiers
2. Low cost of living and low taxes
3. Low crime rate
4. STAR clusters: Advanced Manufacturing, Advanced Materials, Earth Products, Advanced Logistics, Biotech/Biomed, Chemicals, Forest and Wood Products.
5. Wealth of cultural and recreational opportunities as well as amateur and professional sports
6. Abundance of educational opportunities
7. Ample recreational opportunities
8. Progress in reducing pollution
9. Ninth lowest poverty rate in the United States

WEAKNESSES

1. High number of mortgage foreclosures relative to the nation
2. Inadequate public transportation
3. Lack of diversity resulting in intolerance of differences
4. Loss of high wage manufacturing jobs
5. Loss of management positions from industry consolidation and outsourcing that result in the loss of community and not-for-profit leadership
6. Isolation of rural areas (e.g., broadband, etc.)
7. High level of some health risks (e.g., teen pregnancy, heart disease, obesity)
8. Limited investment in tourism
9. Air quality issues in some areas

OPPORTUNITIES

1. Promote availability of natural areas for tourism
2. Invest in and improve image through marketing
3. Publicize cultural attractions (symphonies, art museums, etc.) to increase tourism and enhance Indiana's image
4. Retain university graduates
5. Revitalize small cities, towns and rural areas
6. Low airfare, easy interstate access

THREATS

1. Not perceived as an open culture
2. Federal budget cuts in education and safety net programs
3. EPA sanctions and threats to environmental quality
4. Uncoordinated growth
5. Change in travel trends from weekend getaway to high end experiences
6. Rising cost of college tuition and health care
7. High cost of retirement

Statewide Survey

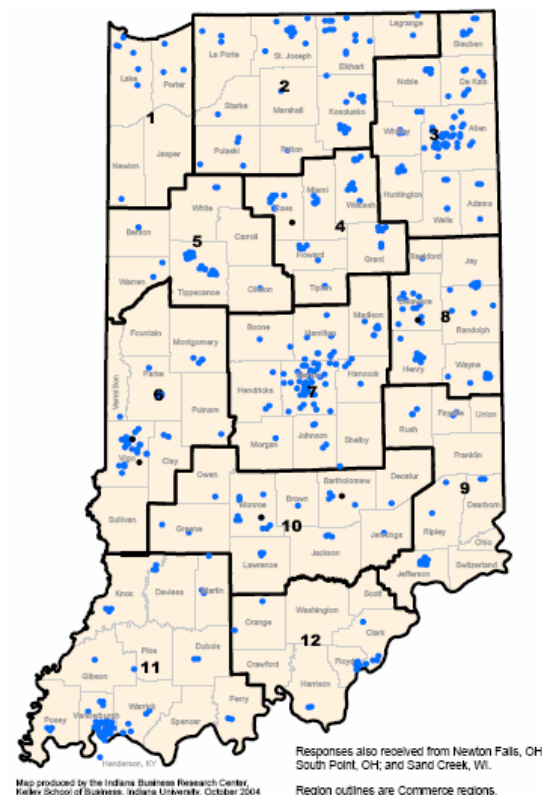
To provide open and broad access to the planning process, a statewide survey instrument was used to elicit public feedback on a number of critical issues related to Indiana's economic drivers. More than 600 people responded. A complete report of survey results will be posted on www.indianaplan.org.

Highlights

- **Training and Education:** 58% of respondents felt that the State of Indiana is effectively addressing the training and education needs for workers and businesses, with 19% finding the state ineffective in this area.
- **Lifelong Education:** Businesses and workers differed in their opinions about the extent that workers and businesses in their communities understand the importance of lifelong education. While 42% of businesses ranked understanding as "Good," only 18% of workers agreed, and 60% of workers ranked understanding as "Limited."
- **Regional Collaboration:** 16% felt government agencies, economic development organizations, and educational institutions in their area collaborated regionally, while 69% said that entities collaborate "somewhat," and 6% indicated that the saw no collaboration.
- **Investment and Taxes:** Opinions were mixed about the extent that government in Indiana balances a low tax environment with timely investments in public services, infrastructure and education. 32% believe that government leans somewhat toward public investment, while 25% believe that there is a balance between public investment and low taxes, and 33% believe that emphasis is either "somewhat" or "heavily" focused on low taxes.
- **Infrastructure:** When asked to rank the quality of various kinds of infrastructure in Indiana on a scale of 1 for poor and 5 for excellent, respondents ranked water availability highest with an average of 3.8, with Broadband telecommunications ranked lowest with an average of 2.6.
- **Globalization:** Only 13% of respondents were "very aware" of effective efforts underway to address the implications of globalization on business and industry in their community, with 41% answering "somewhat" and 36% saying they were "not aware" of these efforts. 18% believe businesses in their community conduct transactions with suppliers or customers outside the U.S. while 58% answered somewhat and 4% thought there was none at all.

Appendix 2

Map 7 – Survey Results by Region



Partners on the IEDC 2004 Planning Team

Indiana Economic Development Council

Jackie Nytes, President

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Purdue Cooperative Extension Services

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Indiana Business Research Center (IBRC)

Jerry Conover, Executive Director

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M. Jean Woods, Principal

Hickman and Associates

Melissa Hickman

Paul Queck

2004 Statewide Steering Committee

Co-Chairs

Kathy Davis
Lieutenant Governor
State of Indiana

Kevin Brinegar
President
Indiana Chamber of Commerce

Thomas New
Krieg De Vault

Globalization

Sub-committee members:

Chenn Qian Zhou - Purdue University, Calumet
Robert Warnock - Teamsters Local 364
Chris Murphy - First Source Bank
Jeff Stratton - Organization/Employer
Wayne Patrick - Professional Data Dimensions
Cress Hizer - Bose Treacy Associates

Resource People:

Reggie Henderson - Indiana Chamber of Commerce
Kathy Cregor-Blitzer - International Center of Indianapolis
Bob Harris - Indiana University-Purdue University Indianapolis

Thinking Regionally

Sub-committee members:

Richard Hamm - Paul Casket Co., Inc.
Maclyn Parker - Baker and Daniels
Darrell Voelker - Harrison County Chamber of Commerce

Resource People:

Chip Orben - Indiana Economic Development Association
Don Koverman - Indiana Rural Development Council
Ed Durkee/Scott Massey - Indiana Humanities Council
Kathy Noland - Indiana Department of Commerce

Quality of Life

Sub-committee members:

Pat Stroud - Crawford County Chamber of Commerce
John Livengood - Indiana Restaurant and Hospitality Association
Mike Hinton - Old National Bank

Resource People:

Tim Method - Indiana Department of Environmental Management
Steve Sullivan - Metropolitan Indianapolis Board of REALTORS
Christy Gillespie - Indiana Association of Community and Economic Development
Charlie Warren - Consultant, Public Policy
Marty Peters - Director of Tourism and Film Development, Indiana Department of Commerce

Innovation

Sub-committee members:

Mike Alley - Patriot Investments, LLC
James Eifert - Rose-Hulman Ventures
Dan Evans - Clarian Health
Kevin Kimbrough - Payton Wells Chevrolet

Resource People:

Lynn Corson - Clean Manufacturing and Technology Institute
Debbie Bishop Trocha - Small Business Development Corporation
Tony Armstrong - 21st Century Fund

Workforce/Education

Sub-committee members:

Steve Ferguson - Cook Group, Inc.
Bob Kovach - Ivy Tech State College
Ronnie Cantu - Azteca Milling

Resource People:

Al Degner - Department for Workforce Development
Tim McGann - State Human Resources Investment Council
Vicki Byrd - Workforce Development Strategies

Smart Government

Sub-committee members:

John Gregg - Sommer Barnard
Sonya Margerum - Former Mayor, City of West Lafayette
Brooke Tuttle - Columbus Economic Development Board
Ed Frank - Retired, Bethlehem Steel

Resource People:

Matt Brase - Indiana Association of Cities and Towns
Beth Henkel - Commission of the Department of Local Government Finance
Drew Klacik - Center for Urban Policy and the Environment

Infrastructure

Sub-committee members:

John Stafford - Community Research Institute, IFPW
Sue Schalk - Aerofinity
The Honorable Ted Ellis - City of Bluffton

Resource People:

Bryan J. Nicol - Commissioner, Indiana Department of Transportation
Will Friedman - Indiana Ports Commission
John Krauss - Center for Urban Policy and the Environment
Cris Fulford - Director of High Speed Communications, Indiana Department of Commerce

2004 Planning Meetings

In addition to the following statewide meetings, an additional 48 regional meetings were conducted throughout the state during 2004.

July 22	Annual Meeting of the IEDC Board
July 22	First Statewide Steering Committee for Discussions of the Update to the Strategic Plan
August 30	Second Meeting of the Statewide Steering Committee for the Update to the Strategic Plan
September 27	Third Meeting of the Statewide Steering Committee for the Update to the Strategic Plan
October 21	Fourth Meeting of the Statewide Steering Committee for the Update to the Strategic Plan
December 15	Fourth Meeting of the Statewide Steering Committee to Review the Draft of the Strategic Plan prepared by the Indiana Economic Development Council

About the Council

The Indiana Economic Development Council is a public-private partnership that brings business, government, labor and education to the table to reach consensus and develop commitment to creating a long term strategic advantage for the state.

Indiana was the first state to create an independent strategic planning entity for economic development. The planning process, refined over nearly twenty years, ensures consistency, continuity and credibility over time and across administrations in state government. *A New Path to Progress* is the fifth plan published by the Council.



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Prof. of Mechanical Engineering, Graduate Director, Purdue University, Calumet